APPENDIX 3

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2021/22

1. Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure),and are separate from the day to day treasury management activities.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

The Council's treasury function is undertaken by Public Sector Partnership Services Ltd (PSPSL) on behalf of the Council. PSPSL is responsible for the:

- Production of the annual treasury management strategy
- Production of regular treasury management policy reports
- Production of treasury management practices

- Production of budget and budget variations relating to the treasury management function
- Production of management information reports
- Provision of adequate treasury management resources and skills, and effective division of responsibilities within the treasury management function
- Arrangement of the appointment of external service providers.

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (Minimum Revenue Provision (MRP) policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

1.2.2 Treasury Management reporting

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

- **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
  - the capital plans (including prudential indicators);
  - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
  - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
  - an investment strategy (the parameters on how investments are to be managed).

- **A mid year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Council will receive quarterly update reports

- **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Governance Committee.

1.3 Treasury Management Strategy for 2021/22

The strategy for 2021/22 covers two main areas:

Capital Issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision policy (MRP).

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Ministry of Housing, Communities and Local Government (MHCLG) MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The Council has addressed this by targeted training courses for relevant members. The last treasury training session for Members was held on 30 October 2019 and this covered the area of property fund investments.

In addition to this, property fund managers have provided presentations to the Audit and Governance committee.

The training needs of PSPSL treasury management officers are periodically reviewed and is supplemented by targeted training as necessary and technical advice from our treasury management advisors.

1.5 Treasury management consultants

PSPSL uses Link Group as its external treasury management advisors for the Council.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 The Capital Prudential Indicators 2021/22 – 2025/26

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital Expenditure plans

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The following table summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Members are asked to approve the following capital expenditure forecasts as part of the budget setting process.

Capital Expenditure £'000's	**2019/20 Actual**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Capitalised Planned Enhancements	314	50	329	199	200	200	200
Cattle Market	394	-	-	-	-	-	-
Tedder Hall Plant Room Refurbishment	(14)	-	-	-	-	-	-
Boars Head Toilet Provision	1	-	-	-	-	-	-
Skegness Rockery Garden	72	-	-	-	-	-	-
Sutton On Sea Colonnade	-	2,000	-	-	-	-	-
Gibraltar Road Wall Collapse	47	153	-	-	-	-	-
Embassy Theatre Fire Curtain	206	100	-	-	-	-	-
Boatshed Renovation	3	20	-	-	-	-	-
Car Park Resurfacing	-	-	357	250	250	250	250
Disabled Facilities Grants	1,264	1,562	1,562	1,562	1,562	1,562	1,562
General Provision For Flood Works	1	-	-	-	-	-	-
Refuse Vehicles	3,352	-	-	-	-	-	-
Louth & Horncastle Flood Alleviation	62	-	-	-	-	-	-
Steeping River	-	50	-	-	-	-	-
Pumping Works On Foreshore	11	146	-	-	-	-	-
Vehicle Purchase	259	246	-	-	-	-	-
Beach Chalets	26	309	-	-	-	-	-
Pool Cars	36	-	-	-	-	-	-
IT Investment	206	642	100	100	100	100	100
Community Housing Fund	41	1,400	-	-	-	-	-
Embassy Theatre Void	34	-	-	-	-	-	-
High Wires	627	-	-	-	-	-	-
Electric Vehicle Charging Points	(3)	-	-	-	-	-	-
Skegness Foreshore Masterplan	387	750	-	-	-	-	-
Traveller Sites	-	100	425	165	170	-	-
Station Sports	-	-	5,000	-	-	-	-
PSPS Investment	359	340	42	-	125	-	-
Public Sector Hub	14	4,712	3,877	-	-	-	-
London Road Astra Turf	-	-	180	170	-	-	-
INVEST East Lindsey	564	2,400	3,700	-	-	-	-
Fleet Maintenance	-	460	-	-	-	-	-
Car Parking Machines	-	280	-	-	-	-	-
Green Homes Grants	-	-	2,300	-	-	-	-
Kingfisher Enhancements	-	175	-	-	-	-	-
Total Expenditure	**8,263**	**15,895**	**17,872**	**2,446**	**2,407**	**2,112**	**2,112**
Financed by:							
External grants	1,315	3,694	4,624	1,562	1,562	1,562	1,562
Revenue	24	65	-	-	-	-	-
Other Reserves	5,449	7,621	9,595	270	100	100	100
Capital Receipts	156	3,268	-	-	-	-	-
Capital Reserve	1,319	1,247	3,653	614	745	450	450
Total Funding	**8,263**	**15,895**	**17,872**	**2,446**	**2,407**	**2,112**	**2,112**
Net financing need for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. Public Finance Initiative (PFI) schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

As part of the formal governance process, the Council approves the cumulative CFR projections as follows:

£000's	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Financing Requirement							
CFR - non-financial investments	22,552	22,552	22,552	22,552	22,552	22,552	22,552
Total CFR	**22,552**	**22,552**	**22,552**	**22,552**	**22,552**	**22,552**	**22,552**
Movement in CFR	**(1,447)**	**-**	**-**	**-**	**-**	**-**	**-**

Movement in CFR represented by							
Net financing need for the year above)	-	-	-	-	-	-	-
Less MRP/VRP and other financing movements	(1,447)	-	-	-	-	-	-
Movement in CFR	**(1,447)**	**-**	**-**	**-**	**-**	**-**	**-**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

From the 2021/22 financial year the way leases are accounted for is changing under IFRS16. This will possibly result in some expenditure on leases being classed as capital expenditure. If this has any impact on the above CFR figures, revised indicators will be submitted at a later date.

2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £'000's	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund Balance	1,818	1,818	1,818	1,818	1,818	1,818	1,818
Earmarked Reserves	22,247	24,537	4,954	5,485	5,243	4,884	4,435
Capital Grants Unapplied	1,305	1,305	1,305	1,305	1,305	1,305	1,305
Capital receipts	3,312	166	535	905	1,274	1,643	2,011
Total core funds	**28,682**	**27,826**	**8,612**	**9,513**	**9,640**	**9,650**	**9,569**
Working capital*	8,600	6,000	6,000	6,000	6,000	6,000	6,000
(Under)/over borrowing	1,448	(2,552)	(2,552)	(2,552)	(2,552)	(2,552)	(2,552)
Expected net investments	**38,730**	**31,274**	**12,060**	**12,961**	**13,088**	**13,098**	**13,017**

*Working capital balances shown are estimated year end; these may be higher mid-year.

2.4 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework, prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. As part of the formal governance process, the Council approves the following indicators:

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Services	-1.61%	-0.98%	-2.07%	-1.21%	-1.43%	-2.10%	-2.35%
Non-financial investments	4.20%	-2.17%	-5.23%	-3.39%	-3.51%	-3.41%	-3.33%
TOTAL	**2.59%**	**-3.15%**	**-7.30%**	**-4.60%**	**-4.93%**	**-5.51%**	**-5.68%**

The estimates of financing costs include current commitments and the proposals in this report.

2.5 Minimum revenue provision (MRP) policy statement

If it has a positive Capital Financing Requirement (CFR) the Council is required to consider paying off an element of the accumulated positive sum through a charge to revenue (known as the Minimum Revenue Provision - MRP). The Council can also undertake additional voluntary payments if it chooses (Voluntary Revenue Provision - VRP).

MHCLG regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement for 2021/22:

From 1 April 2008, for all unsupported borrowing the MRP policy will be either:

- asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3); or

- depreciation method – MRP will follow standard depreciation accounting procedures.

These options provide for a reduction in the borrowing need over approximately the asset's life.

Assets held for investment purposes

Where the Council holds investment assets the Council's MRP Policy will be to determine the amount of MRP and VRP based on the combined value of its holdings at the end of each financial year. The Council will ensure that any capital receipts generated from the sale of property fund units will be earmarked and set aside when received to reduce the CFR liability by the amount of the original borrowing for units sold if MRP/VRP has not previously been provided for.

The Council will also monitor the performance of its Property Fund holdings on a regular basis with performance reported to the Audit and Governance Committee quarterly.

MRP Overpayments

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision, voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. As at 31 December 2020 the total VRP overpayments were £1,428,623. If a decision is made to make a positive or negative VRP contribution as part of the year end accounts process, this updated figure will be reported in the Treasury Management Annual Report following the end of the financial year.

3. Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2020 and for the position as at 31 December 2020 based on cost are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual	Actual	Current	Current
	31.3.20	**31.3.20**	**31.12.20**	**31.12.20**
Treasury Investments	£000	%	£000	%
Banks	24,301	38%	38,394	47%
Building Societies - Rated	0	0%	0	0%
Local Authorities	10,000	16%	5,000	6%
DMADF (H.M.Treasury)	0	0%	0	0%
Money Market Funds	1,500	2%	7,500	9%
Certificates of Deposit	0	0%	3,000	4%
Total Managed In House	**35,801**	**56%**	**53,894**	**66%**
Bond Funds	0	0%	0	0%
Property Funds	27,999	44%	27,999	34%
Total Managed Externally	**27,999**	**44%**	**27,999**	**34%**
Total Treasury Investments	**63,800**	**100%**	**81,893**	**100%**
Treasury External Borrowing				
Local Authorities	4,000	17%	0	0%
PWLB	20,000	83%	20,000	100%
LOBO's	0	0%	0	0%
Total External Borrowing	**24,000**	**100%**	**20,000**	**100%**
Net Treasury Investments / (Borrowing)	**39,800**		**61,893**	

The net investments figure above is artificially high as at 31 December 2020 as the Council returned approximately £13m unspent COVID Business Grants in January 2021.

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£'000's	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External debt							
Debt at 1 April	24,000	20,000	20,000	20,000	20,000	20,000	20,000
Expected change in Debt	-	-	-	-	-	-	-
Other long-term liabilities (OLTL)	-	-	-	-	-	-	-
Expected change in OLTL	-	-	-	-	-	-	-
Actual gross debt at 31 March	**24,000**	**20,000**	**20,000**	**20,000**	**20,000**	**20,000**	**20,000**
The Capital Financing Requirement	**22,552**	**22,552**	**22,552**	**22,552**	**22,552**	**22,552**	**22,552**
(Under) /over borrowing	**1,448**	**(2,552)**	**(2,552)**	**(2,552)**	**(2,552)**	**(2,552)**	**(2,552)**

Within the above figures the level of debt relating to non-financial investment is:

£'000's	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt for non-financial investments							
Actual Debt at 31 March	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Percentage of total external debt	83%	100%	100%	100%	100%	100%	100%

Within the range of prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary (£'000)	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Borrowing	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Other long term liabilities	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Non-financial investments	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Total	**38,000**	**38,000**	**38,000**	**38,000**	**38,000**	**38,000**	**38,000**

The authorised limit for external debt - This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt, which while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. As part of the formal governance process, the Council approves the following indicators, as shown below:

Authorised Limit (£'000)	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Borrowing	19,000	19,000	19,000	19,000	19,000	19,000	19,000
Other long term liabilities	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Non-financial investments	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Total	**44,000**	**44,000**	**44,000**	**44,000**	**44,000**	**44,000**	**44,000**

3.3 Prospects for interest rates (as at 5 January 2021)

Link Group has been appointed as the Council's treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 11 December 2020. However, following the conclusion of the review of PWLB margins over gilt yields on 25 November 2020 all forecasts below have been reduced by 1%. These are forecasts for certainty rates, gilt yields plus 80 basis points.

	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Mar 2021	0.10	0.80	1.10	1.50	1.30
Jun 2021	0.10	0.80	1.10	1.60	1.40
Sep 2021	0.10	0.80	1.10	1.60	1.40
Dec 2021	0.10	0.80	1.10	1.60	1.40
Mar 2022	0.10	0.90	1.20	1.60	1.40
Jun 2022	0.10	0.90	1.20	1.70	1.50
Sep 2022	0.10	0.90	1.20	1.70	1.50
Dec 2022	0.10	0.90	1.20	1.70	1.50
Mar 2023	0.10	0.90	1.20	1.70	1.50
Jun 2023	0.10	1.00	1.30	1.80	1.60
Sep 2023	0.10	1.00	1.30	1.80	1.60
Dec 2023	0.10	1.00	1.30	1.80	1.60
Mar 2024	0.10	1.00	1.30	1.80	1.60

Commentary provided by Link Group

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed by 31 December 2020 and as this has now occurred, these forecasts do not need to be revised.

Gilt yields/PWLB rates - There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9 November 2020 when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Investment and borrowing rates

- Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

- Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 2020/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. *(Please note that Link has concerns over this approach, as the fundamental principle of local authority borrowing* *is that borrowing is a treasury management activity and individual sums that are borrowed are not linked to specific capital projects.)* It also introduced the following rates for borrowing for different types of capital expenditure: -

- PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
- PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

- As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

- On 25 November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows:-

    - PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
    - PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
    - PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
    - PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
    - Local Infrastructure Rate is gilt plus 60bps (G+60bps)

- **Borrowing for capital expenditure.** As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs.

- While this authority will not be able to avoid borrowing to finance new capital expenditure to replace the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

(End of Link Group Commentary)

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy has been prudent as investment returns have been low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.

- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing activity will be subject to rigorous prior appraisal and subsequent reporting through the mid-year and annual reporting mechanisms.

3.6 Maturity structure of borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2021/22		
	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%
Maturity structure of variable interest rate borrowing 2021/22		
	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

3.7 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 basis points in November 2020.

If rescheduling is undertaken it will be reported to the Executive Board at the earliest meeting following its action.

3.8 New financial institutions as a source of borrowing and / or types of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.9 Approved Sources of Long and Short-Term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bonds Agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

3.10 Municipal Bond Agency

It is likely that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the PWLB. This Authority intends to make use of this new source of borrowing as and when appropriate.

4 Annual Investment Strategy

4.1 Investment policy – management of risk

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council's investment policy has regard to the following:

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's funds are managed by PSPSL with reference to a detailed cash flow forecast on a daily basis for the current year. Protocols are in place to govern the movement of funds within specific limits.

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity and within the Council's risk appetite.

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

- **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** (CDS) and overlay that information on top of the credit ratings.

- **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

- This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in **Appendix C1** under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.

    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

- **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments to £5m of the total investment portfolio, (see paragraph 4.3).

- **Lending limits**, the maximum total investments to any individual financial institution or its parent group is £5m. The maximum limit for individual money market funds is £7.5m. The maximum permitted duration of investments for each institution will be determined in accordance with paragraph 4.2. There will be no maximum limit with the Debt Management Agency Deposit Facility (UK Government).

- **Transaction limits** are set for each type of investment in **Appendix C1**.

- This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

- PSPSL has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

- All investments will be denominated in **sterling**.

- As a result of the change in accounting standards for 2018/19 under **IFRS 9**, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.

The only change in the above criteria is to have no maximum investment limit (previously £5m) with the Debt Management Agency Deposit Facility (UK Government). During 2020/21 the treasury team found it increasingly difficult to place money in the financial markets for short durations and this will assist in alleviating this problem.

4.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moody's, and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. PSPSL is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings PSPSL will be advised of information in movements in CDS spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information and information on any external support for banks to help support its decision making process.

Creditworthiness.

Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30 June 2020 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during Q1 and Q2 2020, banks made provisions for *expected* credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on *actual* levels of credit losses. (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6 August 2020 revised down their expected credit losses for the UK banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March/early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. Nevertheless, prices are still elevated compared to end-February 2020. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link provided Passport portal.

4.3 Other limits

Due care will be taken to consider the exposure of the Council’s total treasury investment portfolio to non-specified investments, countries, groups and sectors.

- **Non-specified investment limit**. The Council has determined that it will limit the maximum total exposure to non-specified investments to £10m of the total investment portfolio.

- **Country limit**. The Council has determined that it will only use approved counterparties from the United Kingdom or countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix C2**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

- **Other limits**. In addition:
  - no more than £5m will be placed with any non-UK country at any time;
  - limits in place above will apply to a group of companies;
  - sector limits will be monitored regularly for appropriateness

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. Where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations - Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

- 2020/21 0.10%
- 2021/22 0.10%
- 2022/23 0.10%
- 2023/24 0.10%
- 2024/25 0.25%

The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by the recent Brexit deal with the EU.

There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

Negative investment rates - While the Bank of England said in August/ September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surplus of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

As part of the formal governance process, the Council approves the treasury indicator and limit, as shown below:

£'000	2021/22	2022/23	2023/24	2024/25	2025/26
Principal sums invested > 365 days (excluding non-treasury investments)	10,000	10,000	10,000	10,000	10,000
Current treasury investments as at 31 December 2020 in excess of 1 year maturing in each year	0	0	0	0	0

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access accounts and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.5 Investment risk benchmarking

The Council has not adopted any formal benchmarks in this area, as officers believe that decisions on counterparties and maximum investment levels are adequate to monitor the current and trend position, and amend the operational strategy to manage risk as conditions change.

The Council is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to members accordingly.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5 Appendices

C1 Treasury Management practice 1 – credit and counterparty risk management

C2 Approved countries for investments

C3 Treasury management scheme of delegation

C4 The treasury management role of the section 151 officer

APPENDIX 'C1' - Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management Specified and Non-Specified Investments and Limits

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility	N/A	In-house (no maximum limit)
Deposits with local authorities	N/A	In-house
Term deposits – banks and building societies	Minimum colour of green on our external treasury advisers credit rating matrix	In-house
Certificates of deposit issued by banks and building societies	Minimum colour of green on our external treasury advisers credit rating matrix	In-house
Treasury Bills	UK sovereign rating	In-house
Bonds issued by multilateral development banks	AAA	In-house buy and hold
Money market funds	AAA	In-house (£7.5m limit for cash flow purposes)
Money Market Funds CNAV (Constant Net Asset Value)	AAA	In-house
Money Market Funds LVAV (Low Volatility Asset Value)	AAA	In-house
Money Market Funds VNAV (Variable Net Asset Value)	AAA	In-house

Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	**Use**	**Max of total investments**	**Max. maturity period**
UK part nationalised banks	Minimum colour of green on our external treasury advisers credit rating matrix	In-house	£5m	1 year
Banks part nationalised by AAA or AA- sovereign rating countries – non UK	Minimum colour of green on our external treasury advisers credit rating matrix	In-house	£5m	1 year

If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of £10m treasury investments can be held in aggregate in non-specified investment.

1. Maturities of ANY period

	Minimum Credit Criteria	**Use**	**Max of non-specified investments**	**Max. maturity period**
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Sovereign rating of AAA to AA- and minimum colour of green on our external treasury advisers credit rating matrix	In-house	£5m	1 year
UK Government Gilts	UK sovereign rating	In-house buy and hold	£5m	2 year
Sovereign bond issues (other than the UK govt)	AAA	In-house buy and hold	£5m	2 year
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (e.g. National Rail)	UK sovereign rating	In-house buy and hold	£5m	2 year
Collateralised deposits (see note 1)	UK Sovereign rating	In-house	£5m	1 year
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)				
Property Funds: (excluding non-treasury investments)		In-house	£8m	
The use of property funds can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken. *The Section 151 and Deputy Section 151 Officer will have delegated authority to invest in property funds subject to consultation with the Portfolio Holder for Finance.*				

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -				
	Minimum Credit Criteria	**Use**	**Max of non-specified investments**	**Max. maturity period**
1. Government Liquidity Funds	Long-term AAA volatility rating MR1+	In-house	£10m	1 month notice period
2. Ultra-Short Dated Bond Funds with a credit score of 1.25	Long-term AAA volatility rating MR1+	In-house	£10m	1 month notice period
3. Ultra-Short Dated Bond Funds with a credit score of 1.5	Long-term AAA volatility rating MR1+	In-house	£10m	1 month notice period
4. Bond Funds	Long-term AAA volatility rating MR1+	In-house	£10m	1 month notice period
5. Gilt Funds	Long-term AAA volatility rating MR1+	In-house	£10m	1 month notice period

Note 1 : as collateralised deposits are backed by collateral of AAA rated local authority LOBOs, this investment instrument is regarded as being a AAA rated investment as it is equivalent to lending to a local authority.

2. Maturities in excess of 1 year

	Minimum Credit Criteria	**Use**	**Max. of total investments**	**Max. maturity period**
Deposits with UK local authorities	N/A	In-house	£5m	2 year
Term deposits to Registered Social Landlords	None	In-house subject to due diligence report by Link Group	£5m	5 year
Term deposits – banks and building societies	Sovereign rating of AAA to AA- and minimum colour of orange on our external treasury advisers credit rating matrix	In-house	£5m	2 year
Certificates of deposit issued by banks and building societies	Sovereign rating of AAA to AA- and minimum colour of orange on our external treasury advisers credit rating matrix	In-house	£5m	2 year
Bonds issued by multilateral development banks	AAA	In-house	£5m	2 year

Whilst these are maximum limits, under normal circumstances the Section 151 Officer will ensure lower limits are maintained. The higher limits are required to allow flexibility in the movement of funds if a particular issue or circumstance arose e.g. global banking crisis.

The maximum total investment to any individual financial institution or its parent group is £5m except for the instant access money market fund which has a limit of £7.5m and the UK Debt Management Agency Deposit Facility (UK Government) which has no maximum limit.

APPENDIX 'C2' - Approved countries for investments as at 5 January 2021

This list is based on those countries which have sovereign ratings of AA- or higher (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- U.K.

APPENDIX 'C3' - Treasury management scheme of delegation

Council	-	Receive, Review and Approval of Treasury Policy Statement – February/March cycle
	-	Receive, Review and Approval of Treasury Management Strategy Statement incorporating the Annual Investment Strategy and Minimum Revenue Provision Policy – February/March cycle followed by mid year report update. Updates or revisions at other times as required
	-	Receive, Review and Approval of Annual Treasury Outturn Report by 30 September after the year end
Executive Board	-	Recommend to Council a Treasury Policy Statement
	-	Recommend to Council a Treasury Management Strategy Statement incorporating the Annual Investment Strategy and Minimum Revenue Provision Policy – February/March cycle followed by mid year report update
	-	Extraordinary Activity and Investment Management arrangements – as soon as possible after significant change occurs
	-	Recommend to Council a Treasury Management Outturn Report by 30 September after the year end
Audit and Governance Committee	-	Receive Treasury Management Mid Term report
	-	Receive Treasury Management Outturn Report
	-	Receive Treasury Management Practices annually if amended
	-	Scrutiny of the Treasury Management Strategy before the commencement of each financial year
	-	Scrutiny of Treasury Management performance as part of the Mid Term report.

SCRUTINY AND MONITORING

Council delegates the scrutiny and monitoring of the Treasury Management function to the Audit and Governance Committee. As a minimum they will receive a Mid Term Treasury report on investment issues and performance. Training will be made available for members of the Audit and Governance Committee to ensure they have the necessary skills to undertake this role. Recommendations will be reported to Executive Board.

The Audit and Governance Committee will also have access to professional and independent advice and support as required in order to undertake this role.

APPENDIX 'C4' - The treasury management role of the section 151 officer and deputy

The S151 Officer's main functions with regards to treasury are to:

- recommend clauses, treasury management policy/practices for approval, review the same regularly, and monitor compliance
- submit regular treasury management policy reports
- submit budgets and budget variations
- receive and review management information reports
- review the performance of the treasury management function
- ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensure the adequacy of internal audit, and liaise with external audit
- recommending the appointment of external service providers
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:

    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;

    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;

- Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;

- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

As an added safeguard, as part of the Section 151's statutory responsibility, the Chief Finance Officer (CFO) is obliged to notify the Monitoring Officer of any material change proposed to approved treasury policies and of any major breaches which have occurred.

Any significant operational or other changes will be notified and discussed with the relevant Portfolio Holder. This is currently the Portfolio Holder for Finance. Any actions resulting from this will be reported to Audit and Governance. If timescales are such that due to urgency, the formal reporting process cannot be utilised, then emergency authorisation will be sought through existing mechanisms.

The CFO has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.

The CFO may delegate power to borrow and invest to members of staff. All dealing transactions must be conducted by the CFO, or staff authorised by the CFO, to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of authorised signatories, one of which must be employed by ELDC.

The CFO and the Monitoring Officer will ensure that the Policy is adhered to, and if not, will bring the matter to the attention of Councillors as soon as possible.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the CFO to be satisfied, by reference to the Monitoring Officer, the Authority's Legal Department and external advisors, as appropriate, that the proposed transaction does not breach any statute, external regulation or the Authority's Financial Regulations.

It is also the responsibility of the CFO to ensure that the Authority complies with the requirements of the Non Investment Products Code for principals and broking firms in the wholesale markets as well as the Financial Services Authority's Code of Market Conduct.

The CFO will ensure an accurate record of daily notifications received and document all investment decisions.

The treasury management function is administered by Public Sector Partnership Services Limited and they will supply the following information to the CFO:

- treasury management strategy statements and practices for approval
- capital strategy reports
- regular treasury management policy reports
- budget and budget variation reports
- management information reports
- adequate treasury management resources and skills, and effective division of responsibilities within the treasury management function, and;
- arranging the appointment of external treasury management advisors.